Index

Agénor, P.-R. 127
aggregate demand
  and Bank of England
    macroeconometric model 29–30, 34, 36, 37–8
  and ‘crowding out’ (fiscal policy) 121–3, 135, 137–9
  and EMU (European economic and monetary union) policies 157, 164–5, 184–5
fiscal and monetary policies, effectiveness of 112–15
and inflation barrier 85–6
and interest rates 41–2, 164–5
and investment 80–84, 85, 86
and non-accelerating inflation rate of unemployment (NAIRU) 7, 33–4, 85–6
and Ricardian equivalence 140
and supply-side equilibrium 137–9
see also fiscal policy

Alesina, A. 53, 126
Alexiou, C. 90
Angeloni, I. 46–7
Arestis, P. 89
assets
  prices/returns, and liquidity preference 110
  values, and credit markets 66

Baddeley, M.C. 91
Baker, D. 92
balance sheet channel, monetary transmission 42–4, 65, 66
balance sheet disorders, and inflation targeting (IT) 18
Ball, L. 55, 56, 182–3
Bank of England macroeconometric model 27, 39
equations 29–32
as example of ‘new consensus’ in macroeconomics 28–32
implications of 32–8
key features of 28–9
banks
  and credit market ‘frictions’ 65–7
deposits held by 64–5, 67, 109–10
lending by 42–4, 64–7, 69, 71–2, 104
  and interest rates 103, 108, 109, 110–11
see also central banks
Barro, R.J. 123–4, 140
‘base’ money 67
Bernanke, B.S. 15, 19, 20, 53, 54, 65–7, 70, 71, 104
Bhadhuri, A. 83
Bibow, J. 165
Biefang-Frisancho Mariscal, I. 89
Blinder, A. 18
Bodkin, R.G. 55–6
Boivin, J. 46
borrowing
  and active/passive money views 64–5, 69
credit channels, monetary transmission 42–4
  and credit market ‘frictions’ 65–7, 70–71
see also banks
broad credit channel, monetary transmission 42–4
Brown, G. 36–7
budget 16
  ‘deficit bias’ (fiscal policy) 126–7, 128
  and EMU (European economic and monetary union) policies 155–6, 161–2, 171–82, 183
‘functional finance’ 132–5, 140, 142–3
and interest rates 136–7
intertemporal budget constraint 145–51
and public investment 139

205
and Ricardian equivalence 140–45
Buiter, W. 147, 178
Buti, M. 176

Canada
inflation and unemployment 94, 95–7
inflation targeting (IT) 55–6
investment growth 97, 98
capacity utilization
and Bank of England macroeconometric model 30–31
and inflation 84
and pricing 75–9
capital markets, imperfections 90–91
capital stock
and inflation barrier 86
and investment 80–82, 87
recessions, impact of 87
and unemployment 89–90
central banks 59
budget deficit and interest rates 136
European 161
independence 3–4, 156
inflation targeting (IT) 3–4, 13, 16–17, 18, 19–20, 53–4, 61–2
objectives of 19–20
see also Bank of England macroeconometric model; ECB (European Central Bank)

Chirinko, R.S. 91, 120
Clarida, R. 68
committees, monetary policy by 18
‘constrained discretion’ (inflation targeting) 15–16
consumption, and Ricardian Equivalence Theorem (RET) 123
cost inflation 23, 24, 106–7
costs
and capacity 84
and pricing 75–9
credit
channels, monetary transmission 42–4, 111
market, imperfections 65–7, 69–71
rationing 110–11
Creel, J. 167, 182, 183
‘crowding out’ (fiscal policy) 119–24, 135
interest rates 136–7
Ricardian equivalence 140–45
supply-side equilibrium 137–9
Cunningham, S.R. 120
debt, and Ricardian Equivalence Theorem (RET) 123
‘deficit bias’ (fiscal policy) 126–7, 128
demand, aggregate see aggregate demand
demand for money
and active/passive money views 63, 64–5, 69
and Bank of England macroeconometric model 36–7
‘buffer stock’ concept 64
and stock of money 60–61, 64, 68
demand inflation 23–5, 106
developing countries, effectiveness of fiscal policy 127–8, 129
Domar, E.D. 145
Dow, J.C.R. 87–8
Duisenberg, W.F. 158, 167, 169, 170, 171, 173, 174
ECB (European Central Bank) 157, 161, 163–4, 181, 182, 184
policy defects/problems 164–71
and Stability and Growth Pact (SGP) 174, 175–6, 180, 181
economic development, level of, and effectiveness of fiscal policy 127–8, 129
EIB (European Investment Bank) 186
Els, P. Van 47–50
employment
and balanced budget 177–8
and EMU (European economic and monetary union) policies 169, 177–8, 184–6
as policy objective 4
and real wages 77–8, 79–80, 81–4, 94
see also labour market flexibility;
non-accelerating inflation rate of unemployment (NAIRU);
unemployment
EMU (European economic and monetary union)/euro area, macroeconomic policies 154, 186–7
economic policy changes 184–6
fiscal policy 155, 161–2, 171–80, 182, 183–4
growth rates 158, 159
inflation rates 158, 160
institutional changes 180–84
monetary policy 155–8, 161, 163–71, 182–3
objectives of 181
theoretical underpinnings of 155–8
unemployment rates 158, 160
endogenous money 100, 115–16
fiscal and monetary policies, effectiveness of 111–15
Keynesian view 107–11
monetary policy, role within Keynesian analysis 109–11
and ‘new consensus’ in macroeconomics 101–7
and structuralist view of inflation 74–5
euro area see EMU (European economic and monetary union)/euro area, macroeconomic policies
exchange rate
and Bank of England macroeconometric model 31, 32, 36
channel, monetary transmission 43, 45
and EMU economy 170
and fiscal policy 120, 121
and interest rates 48, 104–5
exogenous money see stock of money, causal significance
‘expected inflation’ 13, 18–19
‘external finance premium’ 65–6

Fazzari, S. 120, 130
‘financial accelerator’ 66–7
fiscal policy
‘crowding out’ 119–24, 135
interest rates 136–7
Ricardian equivalence 140–45
supply-side equilibrium 137–9
effectiveness of 112–15, 124–30
and EMU (European economic and monetary union) 155, 161–2, 171–80, 182, 183–4
‘functional finance’ 132–5, 140, 142–3, 145–7, 149, 151, 152
institutional aspects of 124–8
intertemporal budget constraint 145–51
and ‘new consensus’ in macroeconomics 118–19
quantitative effects of 128–30
as subordinate to monetary policy 4, 16
Fitousi, J.-P. 167, 182, 183
forecasting
inflation 13, 20
uncertainty of 125
France
growth and interest rates 148, 171
inflation and unemployment 94, 95–7
investment growth 97, 98
and Stability and Growth Pact (SGP)/budget deficit 174, 175
Friedman, M. 1, 2, 73–4, 125
Germany
growth and interest rates 148, 171
inflation and unemployment 94, 95–7
investment growth 97, 98
and Stability and Growth Pact (SGP)/budget deficit 174, 175
Gertler, M. 65–6, 70, 71
Ghosh, A. 20–21
Giannoni, M. 46
Godley, W. 146–7
Gordon, R.J. 22, 23
Greenspan, A. 91
Groshen, E.L. 94
growth
and budget deficit 145–51
and inflation 20–21, 23–5
and interest rates 34–6, 148–9
national/euro area rates 148, 158, 159, 171
recessions, impact of 87–8
Hagen, J. von 53, 54, 55
Hall, S. 42
Hemming, R. 124, 128, 129
Hubbard, R.G. 91
income distribution 8–9, 84–5, 149, 169
inflation 73–4
and demand for money 36–7
and EMU (European economic and monetary union) policies 156–8, 163–5, 167–8, 169, 182–3
and growth 20–21, 23–5
and interest rates, effectiveness of 6–7
and investment 80–84, 85, 86, 90–91
monetarism, basic explanation of 1
and EMU (European economic and monetary union) policies 164–8, 169–70, 171
and equality between savings and investment 106
and national/euro area rates 95, 158, 160
empirical evidence 87–97, 98
and growth 20–21, 23–5
and interest rates, effectiveness of 6–7
and investment 80–84, 85, 86, 90–91
and unemployment, empirical evidence 94–7
and wage determination 79–80, 185
see also endogenous money; monetary policy, impact on inflation/real economy; non-accelerating inflation rate of unemployment (NAIRU); stock of money, causal significance
inflation targeting (IT) 3–4, 10, 11–15
causes of inflation 23–5
empirical evidence 53–6
and four-equation model (McCallum) 61–3
main features of 15–17
real and monetary factors, separation of 21–3
and equals between savings and investment 101–2
see also Bank of England macroeconometric model
interest rate channel, monetary transmission 43, 44
interest rate parity 45, 105
interest rates
and aggregate demand 41–2, 164–5
bank deposits 109
and Bank of England macroeconometric model 29–30, 31, 34–6, 37–8, 39
and ‘crowding out’ (fiscal policy) 119–20, 136–7
effects of changes in, empirical evidence 46–53
and EMU (European economic and monetary union) policies 164–8, 169–70, 171
and equality between savings and investment 106
and exchange rate 48, 104–5
and fiscal policy 113–15
and growth 34–6, 148–9
key discount rate 104, 108–9, 110–11
and liquidity preference 110–11
‘natural’ (Keynes) 102
and ‘new consensus’ in macroeconomics 11–12, 14–15, 38, 39
and output gap 101, 103
as policy instrument 2, 6–7, 112
and policy objectives 106
and stock of money 61–2, 69
investment 23
and capital stock 80–82, 87
and credit rationing 70
determinants of 90–91, 120
and fiscal policy 139, 151
growth, national levels 94, 97, 98
and inflationary process 80–84, 85, 86
and interest rates 104, 106, 114–15, 119–20
and savings 101–6, 109, 133–4, 149–51
and unemployment 89–90
Ireland, P.N. 63
Issing, O. 91, 163, 164
Italy, and Stability and Growth Pact (SGP)/budget deficit 174
Keynes, J.M. 101–2, 104, 110, 139
Keynesian economics
and balanced budget 132
endogenous money 100, 107–11
and savings and investment, equality between 101–2
labour market flexibility 91–3
and inflation barrier 85–6, 86–7
Kalecki, M. 80, 104, 133, 145
King, M. 21, 58, 68–9, 69–70
Kuttner, K.N. 46
and inflationary process 80–84, 85, 86
and interest rates 104, 106, 114–15, 119–20
and savings 101–6, 109, 133–4, 149–51
and unemployment 89–90
and capital stock 80–82, 87
and credit rationing 70
determinants of 90–91, 120
and fiscal policy 139, 151
growth, national levels 94, 97, 98
and inflationary process 80–84, 85, 86
and interest rates 104, 106, 114–15, 119–20
and savings 101–6, 109, 133–4, 149–51
and unemployment 89–90
Ireland, P.N. 63
Issing, O. 91, 163, 164
Italy, and Stability and Growth Pact (SGP)/budget deficit 174
Keynes, J.M. 101–2, 104, 110, 139
Keynesian economics
and balanced budget 132
endogenous money 100, 107–11
and savings and investment, equality between 101–2
King, M. 21, 58, 68–9, 69–70
Kuttner, K.N. 46
labour market flexibility 91–3
and inflation barrier 85–6, 86–7
and supply-side equilibrium 2, 73–4
lags, and fiscal policy 125–6
Laidler, D. 58, 63–5, 69, 71
Laramie, A.J. 149
Lavoie, M. 105
Lerner, A. 133, 134
liquidity preference 110–11

Mair, D. 149
Marglin, S. 83
McCallum, B.T. 61–3, 68–9
Meade, E.E. 168
Meyer, L.H. 19, 20, 59–61, 68
Miaouli, N. 89
Mishkin, F.S. 10, 15, 16, 19, 20, 54, 55, 56
‘model uncertainty’ 125
monetarism, development of 1–2
monetarist channel, monetary transmission 43, 44
monetary aggregates, and demand for money 68
monetary policy, impact on inflation/real economy 41, 56–7, 106–7, 111–12
empirical evidence 45–56
macroeconometric models, empirical evidence based on 45–53
single equation techniques, empirical evidence based on 53–6
transmission mechanism and control of inflation 41–5
see also endogenous money
money, demand for see demand for money
money, endogenous see endogenous money
money stock/supply see stock of money, causal significance; stock of money/money supply
Moore, B.J. 108
Mosser, P.C. 46

narrow credit channel, monetary transmission 42, 43
‘natural rate’ of interest (Keynes) 102
Neder, A.E. 55–6
Neumann, M.J.M. 53, 54, 55

‘new consensus’ in macroeconomics and monetary policy, basic framework of 10–13
causes of inflation 23–5
inflation targeting (IT) 13–17
real and monetary factors, separation of 21–3
theoretical foundations of 18–21
non-accelerating inflation rate of unemployment (NAIRU) 2, 7, 8, 17, 19, 138
and balanced budget 177, 178
and Bank of England macroeconometric model 31, 32, 33–4
determination of 89–90
and EMU (European economic and monetary union) policies 157
estimates of levels 21–2, 94, 97
and inflation barrier 85–6
relevance of 33–4
non-accelerating wage rate of unemployment (NAWRU) 22–3, 184
output gap 19–20, 97, 184
and interest rates 101, 103
and ‘new consensus’ in macroeconomics 11
stabilization 10, 19, 20
supply-side equilibrium level of 73

Palley, T. 92–3
Perotti, R. 126
Phillips, S. 20–21
Phillips curve 3, 11, 24, 28, 73, 137–8
Pitelis, C. 90
politicians, and monetary policy 3, 16–17, 156
Poole, W. 2
Portugal, and Stability and Growth Pact (SGP)/budget deficit 174
Potter, S. 94
pricing, and inflation, structuralist view of 75–9
recessions
fiscal policy during 129
impact of 87–8
Ricardian Equivalence Theorem (RET) 123–4, 140–45
Rowthorn, R. 89, 146–7

savings
and fiscal policy 120–21, 133–4, 140–45, 151
and investment 101–6, 109, 133–4, 149–51
Say’s Law 17, 19, 33–4, 157, 177–8
Sheets, N.D. 168
Sheridan, N. 55, 56, 182–3
Stability and Growth Pact (SGP) 161–2, 171–2, 181–2, 183
flaws of 173, 176–80
rules, flexibility of 174–6, 180–81
Stiglitz, J. 21, 183
stock of money, causal significance
58–9, 71–2, 107
active/passive money 63–5, 69, 71
credit market ‘frictions’ 65–7, 69–71
four-equation model 61–3, 68–9
LM and stable demand for money
60–61, 68
stock of money/money supply 6
and Bank of England macroeco-
nometric model 29, 31, 32, 37
and budget deficit 149
determination of 37
and EMU (European economic and
monetary union) policies 163, 164, 167
and interest rates 44
and monetarism 1
and ‘new consensus’ in macroeco-
nomics 11–12, 13–14
real balance effect 7, 138
targets, money supply 2, 18–19
see also endogenous money
Stockhammer, E. 89–90
Svensson, L.E.O. 19, 20, 182

target real wage hypothesis 79–80
taxation
rate volatility 127
and Ricardian Equivalence Theorem
(RET) 123–4, 142–4
and savings and investment 149
Taylor, J.B. 126
Taylor rule 38, 50–51, 54, 101, 122, 149
time inconsistency, and independent
central bank 156

UK
fiscal policy 179
growth rate 148, 158, 159
inflation rate 94, 95, 158, 160
interest rates 148
investment growth 97, 98
recessions, impact of 87–8
unemployment, determination of 89
unemployment rate 94, 96–7, 158, 160
unemployment
and aggregate demand 8, 85–6
and capital stock 89–90
and inflation 3–4, 17, 19, 21–3, 94–7
and labour market flexibility 91–3
and monetary policy 49, 50
national levels 94, 96–7, 158, 160
‘natural rate of’ 1–2, 73–4
regional disparities 8, 93–4, 185, 186
and wages 22–3, 73–4, 79–80, 137–8, 184
see also non-accelerating inflation
rate of unemployment (NAIRU)

USA
growth rate 148, 158, 159
inflation rate 94, 95, 158, 160
interest rates 47, 48, 148
investment growth 97, 98
unemployment rate 94, 96–7, 158, 160
Vilasuso, J. 120
Volcker, P. 15
wages
and Bank of England
macroeconometric model 31, 32
determination of 79–80, 185
and employment 77–8, 79–80, 81–4, 94
and income distribution 84–5
and pricing 76–9
target 79–80
and unemployment 22–3, 73–4, 79–80, 137–8, 184
wealth channel, monetary transmission
43, 44
Weller, C.E. 106